

**"My Son, my son, if you
knew with what little
wisdom the world is ruled."
...Oxenstierna**

**Supplementary Study Guide to Accompany the
Quarterly CPE Exam on
Topics Addressed in the *Journal of Accountancy*
Third Quarter (July – September), 2017**

Instructions:

**Before you start a section of the CPE Final Exam, complete the corresponding section of this
Supplementary Study Guide. Do NOT submit answers to the Review Questions.**

Purpose:

**To provide an interactive learning experience by listing
Learning Objectives and Review Questions with Suggested Answers and Explanations.**

OUTLINE: The section numbers of the Study Guide correspond to section numbers of the Final Exam. The page numbers below refer to the first page of each article in the printed version of the *JoA*.

Sections I – IV Relate to the *Journal of Accountancy* of July 2017:

Section I. Focus on Technology using Two Related Articles:

Real Talk about Artificial Intelligence and Blockchain (Page 22) and
What is Blockchain? (Page 29)

Section II. Planning Opportunities for the Final Tax Return (Page 52)

Section III. Factor Presence Nexus: A Growing Trend in State Taxation (Page 58)

Section IV. Tax Updates Featuring Two Tax Columns:

Tax Practice Corner: Driver's Licenses Pose New Data Security Risks (Page 64), and
Tax Matters (Page 66)

Sections V – VIII Relate to the *Journal of Accountancy* of August 2017:

Section V. Managing the Risks Associated with Models (Page 36)

Section VI. 2017 Tax Software Survey (Page 44)

Section VII. Internal-use Software Regs. Could Be Boon for Financial Services Industry (Page 54)

Section VIII. Tax Updates Featuring Two Tax Columns:

From *The Tax Adviser*: Use of Trust Disclaimers in Estate Planning (Page 60) and
Tax Matters (Page 64)

Section IX Relates to the *Journal of Accountancy* of September 2017

Section IX. Tax Updates Featuring One Tax Article and Three Tax Columns:

A New Discipline for Tax (Page 38)

From *The Tax Adviser*: Employee Discount Plans (Page 46)

Tax Practice Corner: Tax Planning for Millennials (Page 60) and
Tax Matters (Page 62)

The Learning Objectives are stated in each of the following sections.

Section I. Focus on Technology using Two Related Articles:

Real Talk about Artificial Intelligence and Blockchain (Page 22 of July *JoA*) and
What is Blockchain? (Page 29 of July *JoA*)

Section I Assignment:

1. Study the articles (reference text) in the *Journal of Accountancy*, paying particular attention to our *Learning Objectives stated below*. Also, I strongly recommend the following short video describing blockchain (from IBM Academy): <https://www.youtube.com/watch?v=ID9KAnkZUjU> or this Ted Talk video: <https://www.youtube.com/watch?v=k53LUZxUF50> and this Ted Talk about how the U.S. Government is using blockchain: <https://www.youtube.com/watch?v=507wn9VcSAE>
2. Answer our Review Questions that have been designed to provide an interactive learning experience.
3. Study the Solutions and Suggested Responses to the Review Questions.
4. Answer Final Exam questions 1 through 5.

Section I Learning Objectives:

1. To learn about current automation tools and other technologies that may reshape how records are kept and the accounting profession itself.
2. To learn the basics of blockchain and how it may transform digital ledger technology.

Section I Review Questions:

1. Cieslak's firm uses videoconferencing:
 - a. With routine phone calls to get the nonverbal cues in addition to listening to someone's voice.
 - b. Only to communicate with large groups of people at once.
2. Resources such as Amazon Echo, Siri or Cortana can be used at _____.
 - a. Work
 - b. Home
 - c. Both a and b
 - d. Neither a nor b
3. A blockchain database contains:
 - a. Transactions.
 - b. Blocks.
 - c. Both a and b.
 - d. Neither a nor b.
4. Blockchain:
 - a. Records transactions.
 - b. Provides a home for documents of kinds.
 - c. Both a and b.
 - d. Neither a nor b.
5. Blockchain:
 - a. Was invented to help transact in bitcoin.
 - b. Has the potential to reshape the business of recordkeeping.
 - c. Both a and b.
 - d. Neither a nor b.

Section I Solutions and Suggested Responses to Review Questions appear on the next page.

Section I Solutions and Suggested Responses to Review Questions:

Review Question 1. (Please see page 24 of July *JoA*.)

- a. **Correct.** Cieslak's firm uses videoconferencing routinely on all calls with clients and prospective clients to improve the communications process by getting important nonverbal cues that have the potential to color auditory messages.
- b. **Incorrect.** Instead of using videoconferencing just to communicate with large groups, his firm uses it with all calls with clients and prospective clients.

Review Question 2. (Please see page 26 of July *JoA*.)

- a. **Incorrect.** This is part of but not the most complete answer.
- b. **Incorrect.** This is part of but not the most complete answer.
- c. **Correct.** Each of these resources can be used both in the office and home to increase productivity.
- d. **Incorrect.** Each of these resources can be used both in the office and home to increase productivity.

Review Question 3: (Please see page 29 of July *JoA*.)

- a. **Incorrect.** This is part of but not the most complete answer.
- b. **Incorrect.** This is part of but not the most complete answer.
- c. **Correct.** A blockchain database contains two types of records: transactions and blocks. Blocks hold batches of transactions and are time-stamped and link to a previous block.
- d. **Incorrect.** A blockchain database contains two types of records: transactions and blocks. Blocks hold batches of transactions and are time-stamped and link to a previous block.

Review Question 4. (Please see page 29 of July *JoA*.)

- a. **Incorrect.** This is part of but not the most complete answer.
- b. **Incorrect.** This is part of but not the most complete answer.
- c. **Correct.** Blockchain provides a secure home for documents of all kinds in addition to its ability to record transactions.
- d. **Incorrect.** Blockchain provides a secure home for documents of all kinds in addition to its ability to record transactions.

Review Question 5. (Please see page 29 of July *JoA*.)

- a. **Incorrect.** This is part of but not the most complete answer.
- b. **Incorrect.** This is part of but not the most complete answer.
- c. **Correct.** While blockchain was invented to help transact in bitcoin, it also has the potential to reshape the business of recordkeeping.
- d. **Incorrect.** While blockchain was invented to help transact in bitcoin, it also has the potential to reshape the business of recordkeeping.

=====**End of Section I.**

REFERRAL INCENTIVE PROGRAM - WE'LL PAY YOU FOR REFERRING NEW QUALIFYING CUSTOMERS:

Receive \$10 for each new customer you refer to us. For every new qualifying customer who pays for an exam and mentions your name, we'll send you a check for \$10. It's as simple as that. We welcome any questions by either phone or email.

Section II. Planning Opportunities for the Final Tax Return (Page 52 of July JoA)

Section II Assignment:

1. Study the article (reference text) in the *Journal of Accountancy*, paying particular attention to our *Learning Objectives stated below* and watch a short video on filing the final tax return: <https://www.youtube.com/watch?v=9-qyZRmyI7Q>
2. Answer our Review Questions that have been designed to provide an interactive learning experience.
3. Study the Solutions and Suggested Responses to the Review Questions.
4. Answer Final Exam questions 6 through 10.

Section II Learning Objectives:

1. To learn about some planning opportunities before the demise of the taxpayer as well as when preparing the final federal income tax return for the decedent.
2. To learn about about planning opportunities with respect to the best use of capital loss carryforwards, net operating losses and charitable contributions.

Section II Review Questions:

1. The amount of a decedent's suspended passive activity losses allowed as a deduction on the final income tax return is _____ by the step-up in basis of the related asset to fair market value under Sec. 1014.
 - a. Reduced
 - b. Increased
 - c. Neither a nor b
2. Capital loss carryforwards _____ be used on the estate's income tax return.
 - a. Can
 - b. Cannot
3. Sec. 1245 and Sec. 1250 property transferred by reason of death:
 - a. Receives a basis equal to fair market value at the date of death.
 - b. Loses its character as recapture property.
 - c. Both a and b.
 - d. Neither a nor b.
4. In *Rose*, the court held that the surviving spouse was entitled to carry forward _____ of the business's net operating losses
 - a. 0%
 - b. 25%
 - c. 50%
 - d. 75%
 - e. 100%
5. In *Zeeman*, the court held that the surviving spouse was entitled to carry forward _____ of the business's net operating losses
 - a. 0%
 - b. 25%
 - c. 50%
 - d. 75%
 - e. 100%

Section II Solutions and Suggested Responses to Review Questions appear on the next page.

Section II Solutions and Suggested Responses to Review Questions:

Review Question 1. (Please see page 53 of July *JoA*.)

- a. **Correct.** Such losses are reduced by the step-up in basis of the related asset to FMV under Sec. 1014.
- b. Incorrect. Such losses are reduced by the step-up in basis of the related asset to FMV under Sec. 1014.
- c. Incorrect. Such losses are reduced by the step-up in basis of the related asset to FMV under Sec. 1014.

Review Question 2. (Please see page 54 of July *JoA*.)

- a. Incorrect. Capital loss carryforwards cannot be used on the estate's income tax return.
- b. **Correct.** Capital loss carryforwards cannot be used on the estate's income tax return.

Review Question 3. (Please see page 54 of July *JoA*.)

- a. Incorrect. This is part of but not the most complete answer.
- b. Incorrect. This is part of but not the most complete answer.
- c. **Correct.** Regs. Sec. 1.1245-2(c)(1)(iv) and Regs. Sec. 1.1250-3(b)(2)(i) provide that Sec. 1245 and Sec. 1250 property transferred by reason of death receives a basis equal to FMV at the date of death under Sec. 1014(a) and loses its character as recapture property.
- d. Incorrect. Regs. Sec. 1.1245-2(c)(1)(iv) and Regs. Sec. 1.1250-3(b)(2)(i) provide that Sec. 1245 and Sec. 1250 property transferred by reason of death receives a basis equal to FMV at the date of death under Sec. 1014(a) and loses its character as recapture property.

Review Question 4. (Please see page 55 of July *JoA*.)

- a. Incorrect. The surviving spouse had owned 50% of the business and was responsible for 50% of the NOLs as a direct result of her participation in the activities.
- b. Incorrect. The surviving spouse had owned 50% of the business and was responsible for 50% of the NOLs as a direct result of her participation in the activities.
- c. **Correct.** The surviving spouse had owned 50% of the business and was responsible for 50% of the NOLs as a direct result of her participation in the activities.
- d. Incorrect. The surviving spouse had owned 50% of the business and was responsible for 50% of the NOLs as a direct result of her participation in the activities.
- e. Incorrect. The surviving spouse had owned 50% of the business and was responsible for 50% of the NOLs as a direct result of her participation in the activities.

Review Question 5. (Please see page 55 of July *JoA*.)

- a. **Correct.** The court found that none of the income in the carryback year was attributable to the surviving spouse.
- b. Incorrect. The court found that none of the income in the carryback year was attributable to the surviving spouse.
- c. Incorrect. The court found that none of the income in the carryback year was attributable to the surviving spouse.
- d. Incorrect. The court found that none of the income in the carryback year was attributable to the surviving spouse.
- e. Incorrect. The court found that none of the income in the carryback year was attributable to the surviving spouse.

=====End of Section II.

Section III. Factor Presence Nexus: A Growing Trend in State Taxation (Page 58 of July JoA)

Section III Assignment:

1. Study the articles (reference text) in the *Journal of Accountancy*, paying particular attention to our *Learning Objectives stated below* and consider watching this youtube video describing the work of the Multistate Tax Commission's work: <https://www.youtube.com/watch?v=lZt4M5MiM3w>
2. Answer our Review Questions that have been designed to provide an interactive learning experience.
3. Study the Solutions and Suggested Responses to the Review Questions.
4. Answer Final Exam questions 11 through 15.

Section III Learning Objectives:

1. To learn about the Multistate Tax Commission (“MTC”) and its factor presence nexus.
2. To learn about the the Ohio Supreme Court's decision in *Crutchfield Corp. v. Testa* and its implications about nexus in the future.

Section III Review Questions:

1. Of the following states, which has not adopted some form of a sales factor presence nexus standard?
 - a. Ohio.
 - b. Colorado.
 - c. Michigan.
 - d. Texas.
 - e. Virginia.
2. In _____, the U.S. Supreme Court ruled that physical presence is required to create nexus for collecting sales and use taxes.
 - a. *National Bellas Hess, Inc. v. Department of Revenue.*
 - b. *Quill Corp. v. North Dakota.*
 - c. Both a and b.
 - d. Neither a nor b.
3. In the case of _____, entities may have to file state returns with no income in the state simply as a result of the MTC's factor presence nexus thresholds.
 - a. Ohio
 - b. California
 - c. Colorado
 - d. Michigan
 - e. Texas
4. Michigan's law states that nexus exists if:
 - a. A \$350,000 sales threshold is reached.
 - b. The taxpayer actively solicits business in the state.
 - c. Both a and b.
 - d. Either a or b.
5. Which state has adopted the MTC thresholds and has indexed them for inflation?
 - a. Ohio.
 - b. Michigan.
 - c. California.
 - d. Colorado.
 - e. Virginia.

Section III Solutions and Suggested Responses to Review Questions appear on the next page.

Section III Solutions and Suggested Responses to Review Questions:

Review Question 1. (Please see page 59 of July *JoA*.)

- a. Incorrect. Ohio, Alabama, California, Colorado, Connecticut, Michigan, New York, Tennessee and Virginia have adopted some form of a sales factor presence nexus standard but not Texas.
- b. Incorrect. Ohio, Alabama, California, Colorado, Connecticut, Michigan, New York, Tennessee and Virginia have adopted some form of a sales factor presence nexus standard but not Texas.
- c. Incorrect. Ohio, Alabama, California, Colorado, Connecticut, Michigan, New York, Tennessee and Virginia have adopted some form of a sales factor presence nexus standard but not Texas.
- d. **Correct.** Ohio, Alabama, California, Colorado, Connecticut, Michigan, New York, Tennessee and Virginia have adopted some form of a sales factor presence nexus standard but not Texas.
- e. Incorrect. Ohio, Alabama, California, Colorado, Connecticut, Michigan, New York, Tennessee and Virginia have adopted some form of a sales factor presence nexus standard but not Texas.

Review Question 2. (Please see page 59 of July *JoA*.)

- a. Incorrect. This is part of but not the most complete answer.
- b. Incorrect. This is part of but not the most complete answer.
- c. **Correct.** The U.S. Supreme Court ruled that physical presence is required to create nexus for collecting sales and use taxes in both of these cases.
- d. Incorrect. The U.S. Supreme Court ruled that physical presence is required to create nexus for collecting sales and use taxes in both of these cases.

Review Question 3: (Please see page 60 of July *JoA*.)

- a. Incorrect. Because there is no minimum tax or equity-based franchise tax in Colorado, corporations may have to file returns with no income in Colorado simply because Colorado has adopted the MTC's factor presence nexus thresholds. This is not the case in Ohio.
- b. Incorrect. Because there is no minimum tax or equity-based franchise tax in Colorado, corporations may have to file returns with no income in Colorado simply because Colorado has adopted the MTC's factor presence nexus thresholds. This is not the case in California.
- c. **Correct.** Because there is no minimum tax or equity-based franchise tax in Colorado, corporations may have to file returns with no income in Colorado simply because Colorado has adopted the MTC's factor presence nexus thresholds.
- d. Incorrect. Because there is no minimum tax or equity-based franchise tax in Colorado, corporations may have to file returns with no income in Colorado simply because Colorado has adopted the MTC's factor presence nexus thresholds. This is not the case in Michigan.
- e. Incorrect. Because there is no minimum tax or equity-based franchise tax in Colorado, corporations may have to file returns with no income in Colorado simply because Colorado has adopted the MTC's factor presence nexus thresholds. This is not the case in Texas.

Review Question 4. (Please see page 59 of July *JoA*.)

- a. Incorrect. This is part of but not the most complete answer.
- b. Incorrect. This is part of but not the most complete answer.
- c. **Correct.** Michigan's law states that nexus exists if the \$350,000 sales threshold is met **and** the taxpayer actively solicits in the state.
- d. Incorrect. Michigan's law states that nexus exists if the \$350,000 sales threshold is met **and** the taxpayer actively solicits in the state.

Review Question 5. (Please see page 60 of July *JoA*.)

- a. Incorrect. Ohio has adopted the MTC threshold but has not indexed them for inflation.
- b. Incorrect. Michigan has adopted the MTC threshold but has not indexed them for inflation.
- c. **Correct.** Only California has adopted the MTC threshold *and has indexed them for inflation.*
- d. Incorrect. Colorado has adopted the MTC threshold but has not indexed them for inflation.
- e. Incorrect. Virginia has adopted the MTC threshold but has not indexed them for inflation.

-----End of Section III.

**Section IV. Tax Updates Featuring Two Tax Columns:
Tax Practice Corner: Driver's Licenses Pose New Data Security Risks (Page 64) and
Tax Matters (Page 66)**

Section IV Assignment:

1. Study the article (reference text) in the *Journal of Accountancy*, paying particular attention to our *Learning Objectives stated below*.
2. Answer our Review Questions that have been designed to provide an interactive learning experience.
3. Study the Solutions and Suggested Responses to the Review Questions.
4. Answer Final Exam questions 16 through 20.

Section IV Learning Objectives:

1. To learn how to deal with security risks of dealing with clients' driver's license numbers or Social Security numbers.
2. To learn about the scale of identity theft.
3. To learn about the court rulings in *Phillips* and *Castigliola*.

Section IV Review Questions:

1. Which of the following must be treated in a very secure manner by CPAs to avoid subjecting themselves to potential penalties and sanctions?
 - a. Clients' Social Security numbers.
 - b. Clients' driver's license numbers.
 - c. Both a and b.
 - d. Neither a nor b.
2. Loan guarantees without economic outlays _____ an S corporation shareholder's basis.
 - a. Increase
 - b. Do not increase
3. In which of the following cases were the taxpayers accorded limited-partner status by their respective courts?
 - a. *Renkemeyer, Campbell & Weaver, LLP*.
 - b. *Castigliola*.
 - c. Both a and b.
 - d. Neither a nor b.
4. To qualify for a Sec. 41 research credit, a small business's gross receipts must be less than:
 - a. \$1 million.
 - b. \$2 million.
 - c. \$3 million.
 - d. \$4 million.
 - e. \$5 million.
5. Which of the following cases dealt with the completed-contract method?
 - a. *Stine, LLC*.
 - b. *Shea Homes, Inc.*
 - c. *Scott Singer Installations, Inc.*
 - d. A, b and c.
 - e. A and b but not c.

Section IV Solutions and Suggested Responses to Review Questions follow on the next page.

Section IV Solutions and Suggested Responses to Review Questions:

Review Question 1. (Please see page 65 of July *JoA*.)

- a. Incorrect. This is part of but not the most complete answer.
- b. Incorrect. This is part of but not the most complete answer.
- c. **Correct.** CPAs not only have a professional obligation but also a legal obligation to safeguard clients' private financial information such as driver's license and Social Security numbers.
- d. Incorrect. CPAs not only have a professional obligation but also a legal obligation to safeguard clients' private financial information such as driver's license and Social Security numbers. CPAs who fail to inform their clients of security breaches may be liable for fines and sanctions.

Review Question 2. (Please see page 66 of July *JoA*.)

- a. Incorrect. Because the loan guarantees were not accompanied with any economic outlay, the ax Court in *Phillips* held that Phillips's stock basis should not be increased because of the loan guarantees.
- b. **Correct.** Because the loan guarantees were not accompanied with any economic outlay, the ax Court in Phillips held that Phillips's stock basis should not be increased because of the loan guarantees.

Review Question 3. (Please see pages 67-68 of July *JoA*.)

- a. Incorrect. The taxpayers in this case were not accorded limited-partner status.
- b. Incorrect. The taxpayers in this case were not accorded limited-partner status.
- c. Incorrect. The taxpayers in these cases were not accorded limited-partner status.
- d. **Correct.** The taxpayers in these cases were not accorded limited-partner status.

Review Question 4. (Please see page 68 of July *JoA*.)

- a. Incorrect. To qualify for a Sec. 41 research credit, the top limit of gross receipts is greater than \$1 million.
- b. Incorrect. To qualify for a Sec. 41 research credit, the top limit of gross receipts is greater than \$2 million.
- c. Incorrect. To qualify for a Sec. 41 research credit, the top limit of gross receipts is greater than \$3 million.
- d. Incorrect. To qualify for a Sec. 41 research credit, the top limit of gross receipts is greater than \$4 million.
- e. **Correct.** To qualify for a Sec. 41 research credit, the top limit of gross receipts is \$4,999,999.99.

Review Question 5. (Please see pages 69-70 of July *JoA*.)

- a. Incorrect. This case did not involve the completed-contract method.
- b. **Correct.** This case did involve the completed-contract method.
- c. Incorrect. This case did not involve the completed-contract method.
- d. Incorrect. Only one of the cases involved the completed contract method.
- e. Incorrect. Only one of the cases involved the completed contract method.

===== End of Section IV.

REFERRAL INCENTIVE PROGRAM - WE'LL PAY YOU FOR REFERRING NEW QUALIFYING CUSTOMERS:

Receive \$10 for each new customer you refer to us. For every new qualifying customer who pays for an exam and mentions your name, we'll send you a check for \$10. It's as simple as that. We welcome any questions by either phone or email.

Section V. Managing the Risks Associated with Models (Page 36 of August JoA)

Section V Assignment:

1. Study the article (reference text) in the *Journal of Accountancy*, paying particular attention to our *Learning Objectives stated below* and watch this 58 minute youtube video on model risk management: <https://www.youtube.com/watch?v=f7-Q92nHz-4>
2. Answer our Review Questions that have been designed to provide an interactive learning experience.
3. Study the Solutions and Suggested Responses to the Review Questions.
4. Answer Final Exam questions 21 through 25.

Section V Learning Objectives:

1. To learn the fundamentals of model risk management (“MRM”) and the role that model risk played in contributing to the 2008 financial crisis.
2. To learn about how to reduce model risk.

Section V Review Questions:

1. Models are widely used for:
 - a. Facilitating the decision-making process by providing useful information.
 - b. Accounting and tax purposes.
 - c. Managing day-to-day operations.
 - d. A, b and c.
 - e. A and b but not c.
2. Model risk includes the risk of:
 - a. Financial loss.
 - b. Erroneous financial statements.
 - c. Improper managerial decisions.
 - d. Damaged organizational reputation.
 - e. All of the above.
3. Which of the following can lead to accounting errors resulting in misstatements in the financial statements and fair value footnotes?
 - a. Incomplete or erroneous model input data or assumptions.
 - b. Unsound model theory.
 - c. Either a or b.
 - d. Neither a nor b.
4. A sound model risk management environment requires:
 - a. Oversight by the board of directors.
 - b. Involvement of senior management.
 - c. Assigning the responsibility for MRM to a third party.
 - d. A, b and c.
 - e. A and b but not c.
5. Which of the following techniques can be used to measure model risk?
 - a. Sensitivity analysis.
 - b. Challenger models.
 - c. Analytical procedures.
 - d. A, b or c.
 - e. A or b but not c.

Section V Solutions and Suggested Responses to Review Questions appear on the next page.

Section V Solutions and Suggested Responses to Review Questions:

Review Question 1. (Please see page 37 of August *JoA*.)

- a. Incorrect. This is part of but not the most complete answer.
- b. Incorrect. This is part of but not the most complete answer.
- c. Incorrect. This is part of but not the most complete answer.
- d. **Correct.** Models are widely used for facilitating the decision-making process, for accounting and tax purposes as well as by managers in day-to-day operations.
- e. Incorrect. Models are widely used for facilitating the decision-making process, for accounting and tax purposes as well as by managers in day-to-day operations.

Review Question 2. (Please see page 40 of August *JoA*.)

- a. Incorrect. This is part of but not the most complete answer.
- b. Incorrect. This is part of but not the most complete answer.
- c. Incorrect. This is part of but not the most complete answer.
- d. Incorrect. This is part of but not the most complete answer.
- e. **Correct.** Model risk includes the risk of financial loss, erroneous financial statements, improper managerial decisions and damaged organizational reputation.

Review Question 3. (Please see page 42 of August *JoA*.)

- a. Incorrect. This is part of but not the most complete answer.
- b. Incorrect. This is part of but not the most complete answer.
- c. **Correct.** Either model input or assumptions that are incomplete or erroneous or unsound model theory can lead to accounting errors resulting in misstatements in the financial statements or fair value footnotes.
- d. Incorrect. Accounting errors resulting in misstatements in the financial statements or fair value footnotes can result from either model input or assumptions that are incomplete or erroneous or unsound model theory.

Review Question 4: (Please see page 42 of August *JoA*.) a. Incorrect. This is part of but not the most complete answer.

- b. Incorrect. This is part of but not the most complete answer.
- c. Incorrect. This is part of but not the most complete answer.
- d. Incorrect. This is part of but not the most complete answer.
- e. **Correct.** Model risk includes the risk of financial loss, erroneous financial statements, improper managerial decisions and damaged organizational reputation.

Review Question 5: (Please see page 45 of August *JoA*.)

- a. Incorrect. This is part of but not the most complete answer.
- b. Incorrect. This is part of but not the most complete answer.
- c. Incorrect. This is part of but not the most complete answer.
- d. **Correct.** Model risk may be measured using sensitivity analysis, challenger models or analytical procedures (or some combination of the three).
- e. Incorrect. Model risk may be measured using sensitivity analysis, challenger models or analytical procedures (or some combination of the three).

===== End of Section V.

REFERRAL INCENTIVE PROGRAM - WE'LL PAY YOU FOR REFERRING NEW QUALIFYING CUSTOMERS:

Receive \$10 for each new customer you refer to us. For every new qualifying customer who pays for an exam and mentions your name, we'll send you a check for \$10. It's as simple as that. We welcome any questions by either phone or email.

Section VI. 2017 Tax Software Survey (Page 44 of August *JoA*)

Section VI Assignment:

1. Study the article (reference text) in the *Journal of Accountancy*, paying particular attention to our *Learning Objectives stated below*.
2. Answer our Review Questions that have been designed to provide an interactive learning experience.
3. Study the Solutions and Suggested Responses to the Review Questions.
4. Answer Final Exam questions 26 through 30.

Section VI Learning Objectives:

1. To learn the results of a survey of tax professionals regarding their experience of using tax software.
2. To learn which tax software received the highest or lowest ratings in each of several categories.

Section VI Review Questions:

1. In the 2017 tax software survey, the favorite tax software among firms with more than 100 tax preparers was:
 - a. UltraTax CS.
 - b. ProSystem fx.
 - c. ProSeries.
 - d. Drake.
 - e. CCH Axxess Tax.
2. In the 2017 tax software survey, the favorite tax software among firms with between one and 20 tax preparers (inclusive) was:
 - a. UltraTax CS.
 - b. ProSystem fx.
 - c. ProSeries.
 - d. Drake.
 - e. CCH Axxess Tax.
3. In the 2017 tax software survey, the favorite tax software among firms with between 21 and 100 tax preparers (inclusive) was:
 - a. UltraTax CS.
 - b. ProSystem fx.
 - c. ProSeries.
 - d. Drake.
 - e. CCH Axxess Tax.
4. In the 2017 tax software survey, which tax software received the highest rating for handling updates during the tax season?
 - a. UltraTax CS.
 - b. ProSystem fx.
 - c. ProSeries.
 - d. Drake.
 - e. CCH Axxess Tax.
5. In the 2017 tax software survey, which tax software received the lowest score for providing needed forms?
 - a. UltraTax CS.
 - b. ProSystem fx.
 - c. ProSeries.
 - d. Drake.
 - e. CCH Axxess Tax.

Section VI Solutions and Suggested Responses to Review Questions appear on the next page.

Section VI Solutions and Suggested Responses to Review Questions:

Review Question 1: (Please see page 46 of August *JoA*.)

- a. Incorrect. UltraTax CS was popular among firms with 1-20 preparers but not the favorite among firms with more than 100 preparers.
- b. **Correct.** ProSystems fx was the favorite among firms with more than 100 preparers.
- c. Incorrect. ProSeries was not among the top favorites in any size group of firms.
- d. Incorrect. Drake was not among the very top favorites in any size group of firms although it ranked highly in overall favorability.
- e. Incorrect. CCH Axxess Tax was not among the very top favorites in any size group of firm.

Review Question 2. (Please see page 46 of August *JoA*.)

- a. **Correct.** UltraTax CS was the most popular tax software among firms with 1-20 preparers.
- b. Incorrect. ProSystems fx was the favorite among firms with more than 100 preparers but not with firms with 1-20 preparers.
- c. Incorrect. ProSeries was not among the top favorites in any size group of firms.
- d. Incorrect. Drake was not among the very top favorites in any size group of firms although it ranked highly in overall favorability.
- e. Incorrect. CCH Axxess Tax was not among the very top favorites in any size group of firm.

Review Question 3. (Please see page 47 of August *JoA*.)

- a. Incorrect. UltraTax CS was popular among firms with 1-20 preparers but not the favorite among firms with 21-100 preparers.
- b. **Correct.** ProSystems fx was the favorite among firms with between 21 and 100 preparers.
- c. Incorrect. ProSeries was not among the top favorites in any size group of firms.
- d. Incorrect. Drake was not among the very top favorites in any size group of firms although it ranked highly in overall favorability.
- e. Incorrect. CCH Axxess Tax was not among the very top favorites in any size group of firm.

Review Question 4. (Please see page 47 of August *JoA*.)

- a. Incorrect. UltraTax CS was popular among firms with 1-20 preparers but didn't receive the highest rating in this category.
- b. Incorrect. ProSystems fx was the favorite among firms with between 21 and 100 preparers as well as firms with more than 100 preparers but did not receive the highest rating in this category.
- c. Incorrect. ProSeries was not among the top favorites in any size group of firms and didn't receive the highest rating in this category.
- d. **Correct.** Drake received the highest rating for handling updates during the tax season and it also ranked highly in overall favorability.
- e. Incorrect. CCH Axxess Tax was not among the very top favorites in any size group of firm and did not receive the highest rating in this category.

Review Question 5. (Please see page 47 of August *JoA*.)

- a. Incorrect. UltraTax CS was popular among firms with 1-20 preparers and did not receive the lowest score for providing needed forms.
- b. Incorrect. ProSystems fx was the favorite among firms with between 21 and 100 preparers as well as firms with more than 100 preparers and did not receive the lowest score for providing needed forms.
- c. **Correct.** ProSeries was not among the top favorites in any size group of firms season and received the lowest score for providing needed forms.
- d. Incorrect. Drake received the highest rating for handling updates during the tax and it also ranked highly in overall favorability and did not receive the lowest score for providing needed forms.
- e. Incorrect. CCH Axxess Tax was not among the very top favorites in any size group of firm and did not receive the lowest score for providing needed forms.

===== End of Section VI

Section VII. Internal-Use Software Regs. Could Be Boon for Financial Services Industry (Page 54 of August JoA)

Section VII Assignment:

1. Study the article (reference text) in the *Journal of Accountancy*, paying particular attention to our *Learning Objectives stated below*.
2. Answer our Review Questions that have been designed to provide an interactive learning experience.
3. Study the Solutions and Suggested Responses to the Review Questions.
4. Answer Final Exam questions 31 through 35.

Section VII Learning Objectives:

1. To learn about taxpayer-friendly proposed and final regulations issued by the IRS defining which software qualifies for the research tax credit.
2. To learn about the heightened level of innovation and risk internal-use software requires to qualify for the research credit.

Section VII Review Questions:

1. New regulations further _____ the types of software that qualify for the federal research tax credit.
 - a. Limit
 - b. Expand
2. Which of the following is (are) included in the definition of general and administrative functions within a discussion of internal-use software?
 - a. Financial management function.
 - b. Human resources management function.
 - c. Support services function.
 - d. A, b and c.
 - e. A and b but not c.
3. The final regulations state that physical transfer of software _____ required for the software to be eligible for the federal tax credit.
 - a. Is
 - b. Is not
4. A safe harbor in the final regulations allows a taxpayer to include up to _____ % of the qualified research expenditures of the dual-function subset in computing the amount of the taxpayer's credit.
 - a. 15
 - b. 20
 - c. 25
 - d. 30
 - e. 35
5. The final regulations state that a revolutionary discovery _____ required to meet the high-threshold-of-innovation test.
 - a. Is
 - b. Is not

Section VII Solutions and Suggested Responses to Review Questions appear on the next page.

Section VII Solutions and Suggested Responses to Review Questions:

Review Question 1: (Please see page 55 of August *JoA*.)

- a. Incorrect. The new regulations are taxpayer-friendly and do not place new limitations on the types of software that qualify for the federal research tax credit.
- b. **Correct.** The new taxpayer-friendly regulation do not place new limitations on but instead expand the types of software that qualify for the federal research tax credit.

Review Question 2. (Please see page 56 of August *JoA*.)

- a. Incorrect. This is part of but not the most complete answer.
- b. Incorrect. This is part of but not the most complete answer.
- c. Incorrect. This is part of but not the most complete answer.
- d. **Correct.** All of the above functions are included in the definition of general and administrative functions within a discussion of internal-use software.
- e. Incorrect. All of the above functions are included in the definition of general and administrative functions within a discussion of internal-use software.

Review Question 3. (Please see page 57 of August *JoA*.)

- a. Incorrect. The final regulations make it clear that no physical transfer is required.
- b. **Correct.** The final regulations include an example to clarify that software that is developed to be commercially sold, leased, licensed, etc., may include hosted software and other software even if there is no transfer of a copy of the software.

Review Question 4. (Please see page 58 of August *JoA*.)

- a. Incorrect. The threshold is higher than 15%.
- b. Incorrect. The threshold is higher than 20%.
- c. **Correct.** A safe harbor in the final regulations allows a taxpayer to include up to 25% of the qualified research expenditures of the dual-function subset in computing the amount of the taxpayer's credit.
- d. Incorrect. The threshold is lower than 30%.
- e. Incorrect. The threshold is lower than 40%.

Review Question 5. (Please see page 58 of August *JoA*.)

- a. Incorrect. The final regulations state that a revolutionary discovery is not required to meet the high-threshold-of-innovation test.
- b. **Correct.** The final regulations state that a revolutionary discovery is not required to meet the high-threshold-of-innovation test.

===== **End of Section VII**

**Section VIII. Tax Updates Featuring Two Tax Columns:
From *The Tax Adviser*: Use of Trust Disclaimers in Estate Planning (Page 60) and
Tax Matters (Page 64)**

Section VIII Assignment:

1. Study the article (reference text) in the *Journal of Accountancy*, paying particular attention to our *Learning Objectives*.
2. Answer our Review Questions that have been designed to provide an interactive learning experience.
3. Study the Solutions and Suggested Responses to the Review Questions.
4. Answer Final Exam questions 36 through 40.

Section VIII Learning Objectives:

1. To learn the benefits and requirements of trust disclaimers in estate planning.
2. To learn rulings in significant tax cases: *Adkins*, *Estate of McKelvey*, *Redfield* and *Cooke*.

Section VIII Review Questions:

1. If a disclaimer does not meet the Section 2518 requirements, it is a _____ disclaimer.
 - a. Qualified
 - b. Nonqualified
 - c. Partially qualified
2. Which of the following is not a requirement of a qualified disclaimer?
 - a. The disclaimer must be in writing.
 - b. The disclaimer must be received by the transferor's legal representative no later than six months after the transfer creating the interest in such person is made.
 - c. The recipient must not accept the interest or any of its benefits.
 - d. The interest passes without any direction on the part of the person making the disclaimer.
3. In *Adkins*, the appellate court held that the abandonment of a claim for reimbursement of a theft loss _____ necessary to prove a reasonable certainty that no reimbursement would be received.
 - a. Is
 - b. Is not
4. In *Estate of McKelvey*, the Tax Court held that the contracts' extension was:
 - a. A sale.
 - b. An exchange.
 - c. Either a or b.
 - d. Neither a nor b.
5. In *Redfield*, the taxpayer filed his 2010 tax return _____ the IRS prepared a substitute return for him.
 - a. Before
 - b. After
6. In *Cooke*, the property _____ operated as a bed and breakfast during both of the years at issue.
 - a. Was
 - b. Was not

Section VIII Solutions and Suggested Responses to Review Questions appear on the next page.

Section VIII Solutions and Suggested Responses to Review Questions.

Review Question 1: (Please see page 60 of August *JoA*.)

- a. Incorrect. If all requirements of Section 2518 are not met, a disclaimer is not qualified.
- b. **Correct.** If all requirements of Section 2518 are not met, a disclaimer is nonqualified.
- c. Incorrect. There is no gray area here and there are the disclaimer that does not meet all the Section 2518 requirements is simply nonqualified.

Review Question 2: (Please page 60 of August *JoA*.)

- a. Incorrect. This is a requirement of qualified disclaimer.
- b. **Correct.** Instead of just six months, the disclaimer must be received by the transferor's legal representative no later than nine months after the transfer creating the interest in such person is made or the day on which such person attains age 21.
- c. Incorrect. This is a requirement of qualified disclaimer.
- d. Incorrect. This is a requirement of qualified disclaimer.

Review Question 3: (Please see page 64 of August *JoA*.)

- a. Incorrect. The appellate court held that such abandonment was not necessary to prove worthlessness.
- b. **Correct.** The appellate court held that such abandonment was not necessary to prove a reasonable certainty that no reimbursement would be received.

Review Question 4: (Please see page 65 of August *JoA*.)

- a. Incorrect. The Tax Court held that the contracts' extension was not a sale.
- b. Incorrect. The Tax Court held that the contracts' extension was not an exchange.
- c. Incorrect. The Tax Court held that the contracts' extension was neither a sale nor an exchange.
- d. **Correct.** The Tax Court held that the contracts' extension was neither a sale nor an exchange.

Review Question 5: (Please page 67 of August *JoA*.)

- a. Incorrect. Importantly, the taxpayer only filed his 2010 return after the IRS prepared a substitute return for him.
- b. **Correct.** The IRS prepared a substitute return for the taxpayer before the taxpayer filed his 2010 return.

Review Question 6: (Please page 68 of August *JoA*.)

- a. Incorrect. Unfortunately for the taxpayers, the bed and breakfast was closed in January of 2010 and put up for sale, thus precluding deduction of the operating losses for the years at issue.
- b. **Correct.** Unfortunately for the taxpayers, the bed and breakfast was closed in January of 2010 and put up for sale, thus precluding deduction of the operating losses for the years at issue.

===== End of Section VIII.

REFERRAL INCENTIVE PROGRAM - WE'LL PAY YOU FOR REFERRING NEW QUALIFYING CUSTOMERS:

Receive \$10 for each new customer you refer to us. For every new qualifying customer who pays for an exam and mentions your name, we'll send you a check for \$10. It's as simple as that. We welcome any questions by either phone or email.

Section IX Relates to the *Journal of Accountancy* of September 2017

Section IX: Tax Updates Featuring One Tax Article and Three Tax Columns:

A New Discipline for Tax (Page 38)

From *The Tax Adviser*: Employee Discount Plans (Page 46)

Tax Practice Corner: Tax Planning for Millennials (Page 60) and

Tax Matters (Page 62)

Section IX Assignment:

1. Study the articles (reference text) in the *Journal of Accountancy*, paying particular attention to our *Learning Objectives stated below*.
2. Answer our Review Questions that have been designed to provide an interactive learning experience.
3. Study the Solutions and Suggested Responses to the Review Questions.
4. Answer Final Exam questions 41 through 50.

Section IX Learning Objectives:

1. To learn about how the discipline of tax information and operations management can increase both the efficiency and effectiveness of corporate tax departments as well as public accounting tax practices.
2. To learn the basics of employee discount plans under Sec. 132(a)(2).
3. To learn about certain ways that CPAs can serve millennials including taking advantage of early distributions from traditional IRAs to finance a first-time home purchase and managing student loan debt.
4. To learn about decisions in certain important tax cases.

Section IX Review Questions:

1. Tax information and operations management can include _____ tax-related information and processes while ensuring effectiveness and efficiency.
 - a. Overseeing
 - b. Controlling
 - c. Designing
 - d. A, b and c
 - e. A and b but not c
2. Which of the following may be used for transmitting confidential information?
 - a. Unencrypted email.
 - b. Encrypted email.
 - c. Both a and b.
 - d. Neither a nor b.
3. Employee discount plans offered under Sec. 132(a)(2), products may include qualified:
 - a. Products.
 - b. Services.
 - c. Either a or b.
 - d. Neither a nor b.
4. Under employee discount plans offered under Sec. 132(a)(2), qualified products may include:
 - a. Products offered for sale to the general public in the ordinary course of business.
 - b. Products only available to employees through a company store and not to the general public.
 - c. Both a and b.
 - d. Neither a nor b.
5. Which of the following is (are) eligible to participate in employee discount plans?
 - a. The qualified employee.
 - b. The qualified employee's spouse and dependent children.
 - c. Former qualified employees who retired or left because of disability.
 - d. The widow or widower of a deceased qualified employee.
 - e. All of the above.

6. Early distributions from IRAs normally carry an early-withdrawal penalty of _____%.
a. 5 b. 10 c. 15 d. 20 e. 25
7. Employees may be eligible to claim certain educational expenses as:
a. Itemized deductions.
b. Business expenses.
c. Either a or b.
d. Neither a nor b.
8. Student loan debt:
a. Cannot be discharged in bankruptcy.
b. Generally charges higher interest rates than can be earned on risk-free investments.
c. Both a and b.
d. Neither a nor b.
9. A portability election allows a decedent's unused exclusion amount for _____ tax purposes to be available for the surviving spouse's subsequent transfers during life or at death.
a. Estate
b. Gift
c. Both a and b
d. Neither a nor b
10. Which of the following forms are appropriate for making formal claims for relief?
a. Form 8857 *Request for Innocent Spouse Relief*.
b. Form 8379 *Injured Spouse Allocation*.
c. Both a and b.
d. Neither a nor b.

REFERRAL INCENTIVE PROGRAM - WE'LL PAY YOU FOR REFERRING NEW QUALIFYING CUSTOMERS:

Receive \$10 for each new customer you refer to us. For every new qualifying customer who pays for an exam and mentions your name, we'll send you a check for \$10. It's as simple as that. We welcome any questions by either phone or em

Section IX Solutions and Suggested Responses to Review Questions appear on the next page.

Section IX Solutions and Suggested Responses to Review Questions.

Review Question 1: (Please see pages 39-40 of September *JoA*.)

- a. Incorrect. This is part of but not the most complete answer.
- b. Incorrect. This is part of but not the most complete answer.
- c. Incorrect. This is part of but not the most complete answer.
- d. **Correct.** Overseeing, controlling and designing are all part of tax information and operations management.
- e. Incorrect. Overseeing, controlling and designing are all part of tax information and operations management.

Review Question 2: (Please see page 41 of September *JoA*.)

- a. Incorrect. Unencrypted email such as gmail, yahoo email, hotmail and other popular email services are not encrypted and therefore not safe for sending confidential information. A good example is that it is never safe to email bank account numbers, bank routing numbers, credit card numbers or Social Security numbers via these popular email services due to the probability of being hacked.
- b. **Correct.** Encrypted email services are not free but are much safer for sending confidential information because of their built-in security measures.
- c. Incorrect. Encrypted email is relatively secure while unencrypted email is not secure.
- d. Incorrect. Encrypted email is relatively secure while unencrypted email is not secure.

Review Question 3: (Please see page 46 of September *JoA*.)

- a. Incorrect. This is part of but not the most complete answer.
- b. Incorrect. This is part of but not the most complete answer.
- c. **Correct.** Employers may offer both products and services in employee discount plans offered under Sec. 132(a)(2).
- d. Incorrect. Employers may offer both products and services in employee discount plans offered under Sec. 132(a)(2).

Review Question 4: (Please see page 46 of September *JoA*.)

- a. **Correct.** Any products offered in employee discount plans must be only products available to the general public.
- b. Incorrect. Products offered only to employees and not to the general public may not be offered in employee discount plans.
- c. Incorrect. Products offered only to employees and not to the general public may not be offered in employee discount plans.
- d. Incorrect. Products offered only to employees and not to the general public may not be offered in employee discount plans.

Review Question 5: (Please see page 46 of September *JoA*.)

- a. Incorrect. This is part of but not the most complete answer.
- b. Incorrect. This is part of but not the most complete answer.
- c. Incorrect. This is part of but not the most complete answer.
- d. Incorrect. This is part of but not the most complete answer.
- e. **Correct.** The employee, the employee's spouse and dependent children, former employees who retired or left because of disability, and the widow or widower of a deceased employee are all eligible to participate in employee discount plans provided the employer's plan chooses to include them.

Review Question 6: (Please see page 60 of September *JoA*.)

- a. Incorrect. The penalty is greater than 5%.
- b. **Correct.** The penalty is 10% but may be waived for certain qualified first-time homebuyers.
- c. Incorrect. The penalty is less than 15%.
- d. Incorrect. The penalty is less than 20%.
- e. Incorrect. The penalty is less than 25%.

Review Question 7: (Please see page 60 of September *JoA*.)

- a. **Correct.** Employees may be eligible to claim qualified educational expenses as itemized deductions.
- b. Incorrect. Employees are not eligible to claim qualified educational expenses as business expenses.
- c. Incorrect. Employees may be eligible to claim qualified educational expenses as itemized deductions but not as business expenses.
- d. Incorrect. Employees may be eligible to claim qualified educational expenses as itemized deductions but not as business expenses.

Review Question 8: (Please see page 60 of September *JoA*.)

- a. Incorrect. This is part of but not the most complete answer.
- b. Incorrect. This is part of but not the most complete answer.
- c. **Correct.** The onerous thing about student loan debt is that they cannot be discharge in bankruptcy and also generally carry interest rates that are higher than can be earned on risk-free investments.
- d. Incorrect. The onerous thing about student loan debt is that they cannot be discharge in bankruptcy and also generally carry interest rates that are higher than can be earned on risk-free investments.

Review Question 9: (Please see page 64 of September *JoA*.)

- a. Incorrect. This is part of but not the most complete answer.
- b. Incorrect. This is part of but not the most complete answer.
- c. **Correct.** A portability election allows a decedent's unused exclusion amount for both estate and gift tax purposes to be available for the surviving spouse's subsequent transfers during life or at death.
- d. Incorrect. A portability election allows a decedent's unused exclusion amount for both estate and gift tax purposes to be available for the surviving spouse's subsequent transfers during life or at death.

Review Question 10: (Please see page 65 of September *JoA*.)

- a. Incorrect. This is part of but not the most complete answer.
- b. Incorrect. This is part of but not the most complete answer.
- c. **Correct.** Both forms are formal claims for relief.
- d. Incorrect. Both forms are formal claims for relief.

===== End of Section IX.

REFERRAL INCENTIVE PROGRAM - WE'LL PAY YOU FOR REFERRING NEW QUALIFYING CUSTOMERS:

Receive \$10 for each new customer you refer to us. For every new qualifying customer who pays for an exam and mentions your name, we'll send you a check for \$10. It's as simple as that. We welcome any questions by either phone or em